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TO: Floyd Stanley, Director
Budget Department (Non-Departmental)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 2, 2011

RE: 2011-2012 Budget Analysis

24.

Attached is our budget analysis regarding the Non-Departmental for the upcoming 2011-12 Fiscal Year.

We would then appreciate a written response to the issues/questions by **Tuesday, May 10, 2011**. Please forward a copy of your responses to the Council Members and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:jgp:ss

Attachment

cc: Council Members
Council Divisions
Auditor General's Office
Thomas Lijana, Finance Director
Renee Short, Budget Department
Denise Gardener, Mayor's Office

Non-Departmental (35)

FY 2011-12 Budget Analysis by the Fiscal Analysis Division

Summary

Appropriations

The Non-Departmental agency contains appropriations and revenues for the general fund not specific to any one department. The Non-Departmental agency budget contains appropriations for subsidies to various organizations.

The Non-Departmental agency includes funding for a number of organizational units including positions and subsidies to enterprise agencies.

Also included in Non-Departmental are appropriations offset with equal revenue amounts for organizations whose employees are included and paid through the city payroll system such as the Detroit Building Authority.

Over the years and on an increasing basis, programs with employees have been added to the Non-Departmental budget. When programs with employees are included in Non-Departmental the real line of reporting is blurred in fact completely hidden by the presentation. Consideration should be given to the re-alignment of these organizations into the agencies where the employees ultimately report.

The total appropriations in Non-Departmental are decreasing by \$94.5 million, a 24.17% decrease, from \$391.1 million to \$296.6 million.

Revenues

The Non-Departmental agency contains the major revenues supporting the General Fund that are not specific to any one department.

The recommended budget includes estimated revenues of \$985.5 million, which is a \$91.2 million decrease from the current year's budgeted revenue in Non-Departmental, an 8.47% decrease.

The preliminary review of major revenues indicates potential problems of \$138.2 million of questionable revenues.

2010-11 Surplus/(Deficit)

The 2010-11 surplus/deficit estimates submitted by the Administration staff indicates a \$0.3 million appropriation surplus, and a \$103.7 million revenue deficit, for a net deficit of \$103.4 million in the Non-Departmental agency. The deficit is attributed to shortfall in major and other revenue collections according to the Administration's analysis.

Personnel and Turnover Savings

Following is information by appropriation comparing budgeted FY 2010-11 positions, March 31, 2011 filled positions and FY 2011-12 recommended positions.

<u>Appropriation/Program</u>	<u>Redbook Positions FY 2010-11</u>	<u>Filled Positions 3/31/2011</u>	<u>Mayor's Budget Positions FY 2011-12</u>	<u>Over/(Under) Actual to 10/11 Budget</u>	<u>Mayor's Recommended Turnover</u>
Non-Departmental (35):					
00276 Greater Detroit Resource Recov. Autho.	0	5	0	5	\$ -
00277 Detroit Building Authority	9	8	8	(1)	\$ -
00972 Cable Communications Comm.	2	6	0	4	\$ -
00973 Government Access	0	1	0	1	\$ -
10397 Board of Ethics	2	2	2	0	\$ -
350325 Communication Services	0	0	8	0	\$ -
350326 Media Services	0	0	7	0	\$ -
					\$ -
TOTAL	<u>13</u>	<u>22</u>	<u>25</u>	<u>9</u>	<u>\$ -</u>

The 2011-12 Mayor's Recommended Budget does not include any turnover savings for positions included in the Non-Departmental budget.

Budgeted Professional and Contractual Services by Activity

Non-Departmental (35)			
<u>Budgeted Professional and Contractual Services by Activity</u>	<u>FY 2010-11 Budget</u>	<u>FY 2011-12 Recommended</u>	<u>Increase (Decrease)</u>
Non-Departmental	\$ 69,209	\$ 84,775	\$ 15,566
Board of Ethics	-	-	-
Media Services	85,000	401,335	316,335
Detroit Building Authority	-	-	-
Greater Detroit Resource Recovery	-	-	-
DHRMS	-	-	-
Contributions, Subsidies & Advances	<u>250,000</u>	<u>250,000</u>	-
Total	<u>\$ 404,209</u>	<u>\$ 736,110</u>	<u>\$ 331,901</u>

Appropriation Explanation and Significant Funding Changes by Appropriation

Appro. Program

00199	Public Commemorations	This \$3,000 appropriation provides the funding for the purchase of flags for placement on Veteran's graves by veteran organizations on Memorial Day.
00204	Organization For Cities	<p>This appropriation is decreasing by \$34,247, to \$307,372. This appropriation includes dues and memberships in the City's name to the some or all of the following organizations. :</p> <p>Government Finance Officers Association (\$2,900) Woodward Avenue Action Association (\$13,500) SESAC Inc. (\$4,066) Detroit Sister Cities Program (\$4,732.70) Music License Agreement (\$13,264) Undesignated Organization Payments (\$206,633.56)</p> <p>In past years dues to the following organizations have been recorded against this appropriation:</p> <p>SEMCOG BMI American Society of Composers Motion Picture License Certificate Michigan Municipal League U.S. Conference of Mayors, National League of Cities, Conference of Black Mayors International Great Lake/St. Lawrence Conference Recreation MPLC – Licensing Certification Recreation ASCP Government Licensing</p>
00277	Detroit Building Authority (DBA)	<p>The appropriation for the DBA is decreasing by \$13,292. There is an estimated revenue amount from the DBA in an equal amount to offset this appropriation. The appropriation and estimated revenue accounts represent the pass through of the DBA payroll on the City books.</p>

00341	Tax Support – DOT	<p>The appropriation provides the general fund support necessary for the Department of Transportation to conduct operations. The subsidy to Department of Transportation (DOT) is increasing by \$0.3 million.</p> <p>Maintaining the DOT subsidy at the same level as the current year does not continue the process of reducing the subsidy each year, with the intent of eliminating the subsidy over a 3 or 4 year period. The current recommendation does not conform with previous recommendations that subsidies to enterprise agencies be reduced and phased out. The continuation of general tax dollars in support of operations that as enterprise funds should be self-sufficient warrants review. If the total subsidy cannot be eliminated all at once, the agency should be put on notice that the subsidy will be eliminated over a manageable timetable, possibly 3 years.</p> <p>Another strategic alternative to consider for DOT would be an agreement for the consolidation of transportation systems in the region supported with a adequate funding basis. A goal that recently has been overshadowed by other issues, but needs to be brought to the forefront by the City of Detroit, possibly as part of the rapid transit initiative and or Federal Stimulus funding. This would relieve the City of Detroit from the direct financial drain of \$55 - \$80 million or more annually that DOT has become on general tax dollars.</p>
00347	Airport Subsidy	<p>The appropriation is increasing by \$39,401 to \$830.288. This is a 4.98% increase in the subsidy to the Airport.</p> <p>If an operating agreement is not forthcoming for operation of the Airport that eliminates any general fund tax support, the direct benefits or even indirect, if any, to the citizens of Detroit compared to the on going subsidy (including allocation of capital) required by the Airport, makes this a luxury that the City may not be able to afford any longer. Can the airport be considered a core service?</p> <p>It may be the time to plan an orderly closing of the Airport considering potential alternate development options for the land.</p>
00396	World Trade Program	<p>This appropriation is for the City portion of the cost of the Detroit Port Authority operations. The cost of the Detroit Port Authority is shared by the State of Michigan, Wayne County and the City. The amount of the appropriation remains the same as previous years.</p>

00362	Tax Increment Districts	<p>The appropriation represents the amount of captured taxes for these special districts and is used to allow the taxes collected by the City to be paid to the various increment districts. The appropriation is decreasing by \$0.1 million, a 0.1% decrease. The decrease is a factor of the change in valuation in the various districts and applicable tax rate.</p>
00852	Claims Fund (Insurance Premium)	<p>This appropriation is increasing by \$9.4 million.</p> <p>The appropriation represents the General Fund portion of funding for the Self-Insurance Claim Fund. When originally established a five-year history of claims payouts was used to determine the required annual contribution. Over the last few years the administration has been reducing the amount contributed to the fund. Preliminary discussions indicate that the Administration is returning to the five-year history of claims payment analysis in order to adequately fund the claims operation.</p>
00444	Prior Year's Deficit	<p>This appropriation is required by charter and state statute and should reflect the total of the prior year's deficit that must be financed in the recommended budget. The amount of the appropriation should include both the known deficit and an estimated amount through the end of the current fiscal year. The appropriation in the 2011-12 Mayor's Recommended Budget is decreasing from \$117.4 million in the current year to \$5.2 million, or a \$112.2 million reduction.</p> <p>The Administration's calculation of this appropriation includes the \$155.7 (June 30, 2010 accumulated unreserved undesignated deficit per the Comprehensive Annual Financial Report), plus an estimated \$53.2 million deficit for the current fiscal year for a total accumulated deficit of \$208.9 million. However while the Administration estimates the deficit at \$208.9 million, the appropriation is only \$5.2 million. This is accomplished by netting, at the object level a negative \$203.7 million. This negative figure, per the Administration represents the portion of the accumulated deficit the Administration is planning to address in future budget years. This approach and presentation of questionable at best.</p> <p>Even if there is agreement that the accumulated deficit is so large that it cannot be addressed in one budget year, complying with existing laws that require an appropriation for the total accumulated deficit does present a problem in preparing the budget.</p>

The Administration's approach at the object level is one way of presenting the budget, the problem is it hides the total accumulated deficit and only shows the portion of the accumulated deficit that is planned to be addressed in the proposed budget.

Fiscal recommends a different approach that while it may not technically address the legal issue, would make both the total accumulated deficit and the amount of the accumulated deficit that will be addressed in the proposed budget clearly visible in the official budget. The recommended approach would do this at the appropriation/cost center level, rather than the object level. A much more transparent presentation.

00664	City-County Building Rent and Rehabilitation	This appropriation has not been included in the budget for a few years as all space rental and rehabilitation costs have been allocated to individual departments. The reappearance of the appropriation in the current and proposed budget would indicate either unallocated space in the building or rehab costs of space.
00844	Charter Revision Commission	The appropriation for the Charter Revision Commission remains the same as the current year at \$500,000.
00972	Cable Communications Commission	The appropriation is being eliminated in the recommended budget. The recommended budget is combining the cost and structure of the Cable Communication Commission with media services and copy center costs from the Information Technology Services agency into two appropriations, 13125 Communication and Media Services and P.E.G Fees in Non-Departmental.
13125	Communication and Media Services	This appropriation is combining all or parts of appropriations in Non-Departmental (Cable Communications Commission, Government Access) and the Information Technology Services Department (Central Data Processing).
13366	P.E.G. Fees	This is a new appropriation that results in the restructuring of the Cable Communications Commission, Government Access, etc.

10633	Internal Service Fund-Vehicles (Internal Service Fund)	<p>The appropriation in the Internal Service Fund - Vehicles is remaining at zero. This appropriation equals the amount of vehicles to be purchased by the fund during the year. The appropriation would be supported by the revenue from the sale of bonds to finance the purchase of the vehicle.</p> <p>The recommendation not to fund this appropriation indicates the administration's plan to not purchase new vehicles in the next fiscal year.</p> <p>This is the third year of not funding this appropriation.</p>
13367	EMS Vehicles	This is a new appropriation in the Internal Service Fund and represents the Administration's plans to purchase, through financing, \$5.0 million of Emergency Medical Service vehicles.
10634	City Vehicles – Lease Purchase (General Fund)	The appropriation in the General Fund of \$3.2 million is an increase of \$687,975 over the current year. The appropriation allows the lease payment to the Internal Service Fund for vehicles previously purchased by the fund and financed with bonds that are currently being used for operations by city agencies.
12370	Internal Service Fund-Vehicle Debt Service (Internal Service Fund)	The appropriation in the Internal Service Fund for vehicles makes the payment of the principal and interest on bonds previously issued by the internal service fund for vehicles purchases. This appropriation ties directly to the general fund appropriation 10634.
05414	African American History Museum - Operations	The subsidy to the museum remains the same as the current year at \$1.95 million. This subsidy along with similar subsidies needs to be reviewed for the city's ability to sustain support for these operations. A plan to phase out or eliminate subsidies may be required while the city faces the current fiscal challenges.
12161	Zoo Operations	The recommended appropriation for the operation of the Zoological Park at \$765,000 remains the same as the current year. Considering the ability of the Zoo to collect dedicated taxes for the operation of the Zoo, and that the amount collected from Detroit residents far exceeds this subsidy, it is difficult to justify continuation of the Zoo subsidy. The elimination of this subsidy may require an amendment to the operating agreement. Is this a core service?

12162	Historical Operations	The recommended appropriation for the operation of the Historical Museum's locations remains unchanged from the current year at \$450,000. Consideration for at least a 50% reduction or complete elimination of the subsidy needs to be considered. Is this a core service?
12897	DIA Operations Subsidy	This appropriation, which was added in the current budget as a subsidy to the Detroit Institute of Arts remains at the same level of \$500,000. Consideration of 50% reduction at a minimum, or the elimination of the subsidy in total should be considered. Perhaps an increase to admission fees could replace the subsidy. Is this a core service?
13141	Eastern Market Operations Subsidy	This is a new subsidy in the 2011-12 Mayor's Recommended Budget in the amount of \$256,000. An effort to reduce or eliminate this subsidy over a short period may be necessary.
12949	POC Transaction	<p>This appropriation is related to the Pension Obligation Certificate, Interest Rate Swap Agreement and Interest Swap Termination Agreement transactions and has an offsetting amount on the revenue side. The specific appropriation is being required as a result of the agreement resolving the interest rate SWAP termination related to the Pension Obligation Certificate (POC) transaction. The requirement results in a double counting of the expense offset by the new revenue, and increases the transparency of the payment to individuals and investors outside of the City, who are not familiar with how the City allocates the pension factors against the payroll.</p> <p>Prior the agreement reached on the Interest Rate SWAP termination the allocation of the cost of the POC's principal and interest payment, was allocated to each payroll account by way of the pension factor. Payment of the principal and interest payment was made from the balance sheet accounts that captured the results of the pension factor as each payroll was processed. When the payment was due and with appropriate year ending entries the budget and balance sheet accounts were reconciled.</p>

A requirement of the interest rate SWAP termination event negotiations is that a specific appropriation must be made in each year's budget to represent the payment of principal, interest, and the SWAP termination agreement related to the POC's.

The flow of the pension factor will now include the collection of the estimated revenue in Non-Departmental in this appropriation along with the recording of the payment against this appropriation.

The amount allocated throughout the budget against payroll accounts for this payment is \$101,383,203, while the Non-Departmental appropriation is \$101,433,103. A difference of \$49,490.

13181	Fiscal Stabilization Bonds 2010 (DSA)	The appropriation includes the interest and principal on the \$250 million fiscal stabilization bonds sold during the 2009-10 year to address the accumulated deficit. The amount of the 2011-12 appropriation is \$12.6 million and a similar amount will be required for the next 23 years in order to pay off the bonds.
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Significant Revenue Changes by Appropriation and Source

<u>Appro.</u>	<u>Program</u>	
04739 401110 401150	General Revenue Property Tax, including Uncollectible Property Tax	The projected revenue of \$132.0 million for the 2011-12 net property tax collections reflects a \$15.3 million reduction from the current budget. This is a 10.4% decrease from the current year budget. The ad valorem taxable value of property has decrease by 6.3%, when special acts tax rolls are included in the analysis the percentage reduction is 4.1%. The collection factor based on prior year's experience in the recommendation is 88%.
402100	Prior Years Real Prop. Tax	The revenue account is increasing by \$290,000 to a total of \$790,000. This is a 58.0% increase.
402200	Prior Years Pers. Prop. Tax	The estimated collection in the account is increasing by \$4.8 million, from \$100,000 to \$4.9 million.

404100	Municipal Income Tax	The increase of \$28.5 million brings the projected revenue for income tax to \$243.5 million in the recommended budget. The tax rate of 2.5% for residents, 1.25% for non-residents, and 1% for corporations is unchanged. However, due to the reduction in census count the ability of the city to continue collection of income tax at these rates is questionable. The Administration is including an initiative that they are counting on to increase collections by \$17.0 million. Excluding the special initiative collections the growth rate for income tax is 5.3%, budget to budget.
405200 405300	Wagering Tax Percentage Payment	Combined these two revenue accounts are increasing by \$24.4 million, to a total of \$197.8 million. This increase represents a 13.5% increase. The Administration is including \$20.0 million of additional collections based on increasing the tax rate on casinos. Without this rate increase the growth in the wagering tax revenues budget to budget is 2.5%.
422141 422142	State Revenue Sharing	The total of State Revenue Sharing revenues is \$165.6 million in the recommended budget. This is a decrease of \$67.8 million from the current year. A portion of the revenue (\$46.6 million) is funded constitutionally and fixed by formula based on collection of sales tax and population. The other larger portion (\$119.0 million) is funded by state general appropriation statute and is also based on a formula. However the governor is proposing and it is anticipated to be implemented a new method for distribution of the statutory portion of state revenue sharing. The new distribution will be tied to implementation of "best practices" by the local government. In the past the State has used reductions in payment of statutory revenue sharing to local governments to address State budget problems.
446100	Administration Fee	The administration fee revenue is decreasing by \$439,000, from \$6.7 million to \$6.3 million, a 6.55% decrease. This is the 1% administration fee that is included on property tax bills.
447555	Other Reimbursements	The estimated revenue is increasing by \$664,000, from \$6.3 million to \$7.0 million.
474100	Miscellaneous Receipts	The revenue account is increasing by \$4.0 million from \$6.1 million to \$10.1, a 65.5% increase.
06925	Temp Casino Site	This \$17.1 million revenue represents the municipal service fee the casinos pay annually. They are required to pay the greater of \$4 million or 1.25% of net collections. The \$341,000 increase in collections represents a 2.0% increase, budget to budget.

12949	POC Transaction	This represents a revenue account added in the 2009-10 budget as a result of the negotiations that resolved the interest rate SWAP termination event that took place in the 2008-09 fiscal year. This account is used to keep the budget in balance and to allow for both a lump sum payment appropriation and the allocation of the payment to all appropriations that contain salary accounts. See appropriation comments above.
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Issues and Questions

1. Provide Council with a listing of the organizations and estimated fees included in the recommended budget for dues and memberships. Explain the city-wide benefits or services provided for the expenditures in the current year and recommended budget for these organizations.
2. Provide Council with the rational and figures that support the estimated payment to the Risk Management Fund included in the 2011-12 Non-Departmental budget. Include in the analysis all funds that are part of the Risk Management Fund and the required payments from each fund, and the five year claims history.
3. Provide Council with the areas of the building, or areas that will be rehabilitated in the building represented by the \$197,735 of City-County Building Rent and Rehabilitation in the 2011-12 Mayor's Recommended Budget.
4. Explain the financing plan for the purchase of new Emergency Medical Services vehicles in the proposed budget. How many vehicles and what type of vehicles will be purchased?
5. Concerning the POC Swap Hedge Payment 2009 explain the difference between the appropriation and revenue accounts for this item. In the current year the revenue was about \$55,000 lower than the appropriation. It was our understanding that this represented the cost of trustee fees. However in the current budget this difference between the appropriation and revenue is \$550,000. Please explain if our understanding was incorrect, or if the trustee fees have increased by this amount.
6. Explain the difference between the appropriation in Non-Departmental for the swap hedge payment and the amount spread throughout the budget in the Pension POC UAAL accounts. Identify the differences and rational for the different amounts.
7. Explain for Council the current formula used for the Risk Management Fund claims analysis that supports the increase in the payment to the Risk Management Fund. Highlight any change in the analysis or assumptions. What are the benefits and/or drawbacks of splitting the Risk Management Fund payment to each individual agency based on past claim payouts? Is charging individual agencies for payments a goal of the administration?

8. Update Council on the process of securing an operator for the Airport. While it has been promised for at least a few years that an operator (profitable) could be found, what are the two or three main obstacles to running the facility at a profit? How can these obstacles be overcome? At what point should the City consider ceasing operations, or closure of the facility? What about allowing the FAA or other Federal agency, State or County to take it over?
9. Concerning the appropriation and revenue for the Parking System Operating Advance, the budget presentation balances the amount. Over the last three to four years has the general fund subsidized the Parking System through these accounts? By year what has the subsidy amount and reimbursement been? If a subsidy to the Parking System has taken place in previous years, will the Parking System make up these amounts in future periods? When would this repayment be anticipated?
10. Provide the Council with schedules that support the debt payment amount for the Internal Service Fund – Vehicles. Include previously sold bond amounts and dates along with the required debt payments in the future. Also include any outstanding authorization for vehicle bond sales and anticipate sale dates.
11. Explain the decision to include only EMS vehicle purchases in the recommended budget. How will this affect the normal replacement cycle for vehicles? Wasn't one of the purposes of the vehicle fund to smooth out the cost of the fleet? If so, does this decision represent a short-term savings with future increases in costs? How will this affect the maintenance of vehicle operation, especially with the recommended reduction in fleet management positions?
12. For each of the subsidy accounts, with the exception of DDOT and Airport what specifically will the subsidy be used for? How can the city continue to provide subsidies for non-core services as core services continue to be reduced?
13. Explain the status of the audit that was conducted on personal property tax assessments. Relate the audit results to the recommendation on prior year personal property tax collections increasing in the recommended budget. What will the implementation of e-filing for personal property taxes have on collection of prior year personal property tax collections?
14. Explain the increase of \$4.8 million in the collection of prior years' real property tax estimated revenue in the recommended budget.
15. Provide the details on the income tax initiative that is projected to increase collections by \$17.0 million in the next fiscal year.
16. Explain for Council the source of the following revenue accounts and the changes in recommendation from current year throughout the Non-Departmental budget: Other Reimbursements \$1.8 million increase and Miscellaneous Receipts \$4.1 million increase.